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May 14, 2009

Stephen P. Hall, Chief Information Officer
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670 East Gilbert Street
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SUBJECT: AUDIT OF ISD-COMPUTER OPERATIONS CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed an audit of the Information Services Department (ISD). Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

Our objective was to determine whether cash handling controls practiced by the department effectively safeguard cash.

We reviewed internal controls over cash for the period of March 1, 2008 through June 30, 2008. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on April 20, 2009 and discussed our observations with management on April 21, 2009. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Non-compliance with County's Reconciliation Procedures

Per the ICCM on page 4-6: County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code completes the fund reconciliation. Also, on page 4-8, the ICCM states that a department employee completes a petty cash voucher in permanent ink, stating the date, the purpose of the expenditure and the amount to be expended. Another authorized department employee approves the voucher. Our audit noted the following conditions:

1. There was no evidence of reconciliation of \$500 petty cash fund within the audit period.
2. Reconciliation was not performed by staff with a higher level job code than the fund custodian of the petty cash checking account.
3. Fund custodian reimbursed department employee less than the amount expended without an explanation.
4. Request for reimbursement form with management approval was not on file.

A fundamental element of internal control is the separation of duties so that one individual cannot conceal errors and irregularities in the normal course of his/her duties.

When reconciliation is not performed timely and accurately, misappropriation of funds may not be detected.

Recommendation:

We recommend that an employee, higher in rank than the fund custodian, reconcile the cash funds at least once a month. In addition, ISD should ensure a request form or electronic message with approval are on file prior to expending petty cash funds.

Management's Response:

ISD concurs with the findings and will implement the following corrective actions by May 31, 2009:

1. ISD will perform a monthly reconciliation of the \$500 petty cash fund.
2. The Fund Custodian will change to an Accounting Technician (Range 40) and the Supervising Accountant II (Range 60) will be responsible for performing the monthly reconciliations.
3. Upon further review it was determined that the Fund Custodian reimbursed the employee the correct amount however the incorrect amount was recorded. The implementation of monthly reconciliations will identify issues such as these in a timely manner for a timely resolution.
4. Request for reimbursements forms will be required for all petty cash/check reimbursements including emergency purchases.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding as long as the Request for Reimbursement forms are approved by supervision before funds are expended.

Finding 2: Lack of Timely Replenishment

Per the ICCM on page 4-5: County departments must replenish their cash funds when they have used 75% of the authorized amount. In addition, they must replenish their cash funds prior to the end of each fiscal year to ensure expenditures are recorded in the year in which they occurred. Our audit noted the following condition:

1. The authorized amount for the ISD Petty Cash Checking account is \$2,000. Accounting records showed that the Petty Cash Checking was not replenished when ISD used 75% of the authorized amount.

When petty cash funds are not replenished timely, funds may not be available when needed and/or items may not be recorded in the correct period.

Recommendation:

We recommend that ISD should provide training for all appropriate staff on cash handling policy and procedures. In addition, ISD should periodically verify that written policies and procedures are being followed and document that review.

Management's Response:

ISD concurs with the finding and will take the following corrective action:

ISD will train appropriate staff on cash handling policies and procedures and will replenish the Petty Cash Checking when 75% of the authorized amount has been used. ISD anticipates having all necessary staff trained by May 31, 2009.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding 3: Late Fee Assessments

Best practice requires agencies to pay bills within 30 days of receiving good or services or 30 days after the invoice is received, whichever is later. The Department generally paid its vendors on a timely basis; however our audit noted the following condition:

1. Late fees were assessed on past due balances and added to the next monthly bill.

When payments aren't made on a timely basis, vendors sometimes add a finance charge or late fee to the amount due. Without a developed system for paying its bills timely, ISD could continue to incur late fees.

Recommendation:

We recommend that ISD remit timely payment for services to avoid late fee assessments.

Management's Response:

ISD concurs with the finding that the department generally does not pay late fees but will take the following corrective action to mitigate the potential of paying late fees:

ISD will include the avoidance of late fees as a discussion item in the aforementioned training for all applicable staff.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

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Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

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Auditor/Controller-Recorder

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